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Dept. Of Commerce & Insurance
Company Examinations

REPORT ON EXAMINATION

OF THE

HAULERS INSURANCE COMPANY, INC.

COLUMBIA, TENNESSEE

AS OF

DECEMBER 31, 2002

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT

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Columbia, Tennessee
May 17, 2004

The Honorable Alfred W. Gross
Commissioner of Insurance
Chairman, Financial Condition Committee
Secretary, Southeastern Zone
National Association of Insurance Commissioners
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

The Honorable Paula Flowers
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Under the authority delegated by you and in compliance with instructions, an association examination and market conduct review has been made of the conditions and affairs of the

HAULERS INSURANCE COMPANY, INC.

Columbia, Tennessee

hereinafter generally referred to as the "Company," and a report thereon is respectfully submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the National Association of Insurance Commissioners (NAIC) and commenced on March 19, 2003. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee. The previous full scope examination of the Company was conducted as of December 31, 1997, by examiners of the Department of Commerce and Insurance, State of Tennessee. The previous examination reported two material changes to the Company's financial statement and four adverse findings. The adverse findings and their resolutions are as follows:

- The Company had no written conflict of interest policy as of December 31, 1997. The Company adopted a conflict of interest policy prior to the completion of the previous examination which is still in effect.
- The Company had no written agreement with General Trucking Company concerning the allocation of expenses and the settlement of balances as of December 31, 1997. Prior to completion of the previous examination, the Company entered into an agreement with General Trucking which governed the allocation of expenses.
- The Company's fidelity bond coverage was less than the NAIC suggested minimum of $250,000 as of December 31, 1997. Prior to completion of the previous examination, the Company increased its coverage to $250,000.
- The Company was not filing the "Annual Report of Unclaimed Property" with the Treasury Department of the State of Tennessee as required by Tenn. Code Ann. § 66-29-113. Before the completion of the previous examination, the Company filed the annual report for the year ending December 31, 1997.

SCOPE OF EXAMINATION

The period covered hereunder is from December 31, 1997, the date of the previous examination, to the close of business on December 31, 2002, the date of this examination and includes material transactions and events occurring subsequent to the examination date and noted during the course of the examination. The Company's financial solvency and the degree thereof were thus established. Test checks covering selected periods were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth. An examination of all asset and liability items contained in the financial statement of this report was made and individual items were verified with relative emphasis according to their amounts and potential impact on surplus as regards policyholders.

A letter of representation certifying that management has disclosed all significant matters and records, was obtained and has been included in the work papers of this report.

In addition, an examination of the following areas was made:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bond and Other Insurance
Employee Benefits
Territory
Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Commission Equity
Pecuniary Interest
Statutory Deposits
Litigation
Accounts and Records
Loss Reserves
Financial Statement

They are discussed in detail as follows:

COMPANY HISTORY

The Company was incorporated on June 9, 1986, pursuant to the provisions of the Tennessee General Corporation Act. The original charter, which was approved by the

Tennessee Department of Commerce and Insurance on June 6, 1986, established a for-profit corporation with a principal office located at 1101 Santa Fe Pike, Columbia, Tennessee. The Company was originally formed to operate as a pure captive. The primary stated purpose of the Company was as follows:

> To make all types and forms of insurance permitted by the Tennessee Captive Insurance Act now in existence or as it may be amended on risks, hazards, and liabilities of its parent, subsidiary companies of its parents, companies affiliated and/or associated with its parent, and other legal entities whose purposes and operation are similar to the parent.

The charter provided for an initial capitalization of a maximum of 20,000 shares of common stock at a par value of $40.00 per share. The corporation would not commence business until consideration of $750,000 had been received.

By declaration of its sole incorporator on June 12, 1986, the Company accepted a subscription from General Trucking Company, Inc. for 6,000 shares. The Company also accepted a subscription from James H. Walker for 4,000 shares. The total consideration for these 10,000 shares was $750,000, of which $400,000 was designated as paid in capital and $350,000 was designated as gross paid in and contributed surplus.

On May 4, 1987, the Company amended its charter to allow the Directors to take action by written consent. This amendment was approved by the Tennessee Department of Commerce and Insurance on April 28, 1987.

On July 7, 1987, the Company amended its charter to change its primary purpose to the following:

> To make all types and forms of property, vehicle, casualty and surety insurance as defined by Tenn. Code Ann. §56-2-201.

This amendment, which was approved by the Tennessee Department of Commerce and Insurance on July 6, 1987, also changed the par value of the common stock from $40.00 to $61.00 per share. All shares originally issued at a par value of $40.00 were surrendered for new shares with a par value of $61.00. The Company transferred $210,000 from gross paid in and contributed surplus to paid in capital. The Company issued an additional 7,100 shares during 1987. The total consideration for these 7,100 shares was $1,114,764, of which $433,100 was designated as paid in capital and $681,664 was designated as gross paid in and contributed surplus.

Effective February 5, 1988, the Company amended its charter to increase the maximum number of authorized shares to 500,000. Each of the shares outstanding was reclassified into ten (10) shares with a par value of $6.00 per share. Paid in capital was decreased by $17,100 and gross paid in and contributed surplus was increased by a like amount. An additional 47,290 shares were issued, from that point through December 31, 1992. The total consideration for these 47,290 shares was $749,333, of which $283,380 was designated as paid in capital and $465,953 was designated as gross paid in and contributed surplus. This amendment was approved by the Tennessee Department of Commerce and Insurance on January 22, 1988.

On September 29, 1995, and approved by the Tennessee Department of Commerce and Insurance on that date, the Company amended its charter to change the par value of its common stock to $10.00 per share. All original shares with a par value of $6.00 per share were surrendered in exchange for new shares of like number with a par value of $10.00 per share. The Company transferred $920,160 from gross paid in and contributed surplus to paid in capital. During the period covered by this examination, the Company issued 1,225 new shares and purchased and redeemed 8,185 shares.

The following exhibit depicts certain aspects of the growth and financial history of the Company since its formation, according to the annual statements filed with the Tennessee Department of Commerce and Insurance:

Year	Gross Premiums Written	Net Premiums Written	Premiums Earned	Losses and LAE Incurred	Net Income	Net Admitted Assets	Capital and Surplus
1986	$ 606,014	$ 606,014	$ 224,054	$ 99,321	$ 92,931	$ 1,302,900	$ 812,836
1987	1,535,382	1,535,382	710,828	309,892	185,357	3,766,164	2,042,281
1988	7,306,219	7,126,497	4,290,371	3,503,353	(433,569)	7,164,698	2,026,939
1989	9,517,177	8,887,591	8,272,765	6,102,489	525,857	9,342,362	2,658,659
1990	9,384,047	8,777,743	8,994,229	7,415,954	352,297	11,354,460	3,213,084
1991	10,608,702	9,968,806	9,284,219	7,029,197	404,794	14,002,686	3,547,845
1992	11,669,146	11,208,119	10,498,789	6,961,818	1,718,126	16,867,569	5,276,542
1993	13,224,325	12,705,536	12,071,600	8,187,933	1,348,104	18,304,294	6,497,417
1994	14,408,577	13,854,862	12,856,977	9,157,655	945,061	20,075,883	7,560,416
1995	14,725,263	14,145,055	14,564,202	11,879,356	544,616	20,585,665	8,076,520
1996	10,586,332	10,108,682	12,818,921	9,655,762	1,450,952	19,020,384	9,234,776
1997	14,141,064	13,637,994	13,413,487	9,881,119	1,036,393	19,754,609	10,111,691
1998	15,003,573	14,469,534	14,312,415	11,100,005	701,690	20,268,307	10,352,453
1999	15,258,190	14,701,774	14,442,480	10,085,651	1,409,687	21,666,387	11,640,706
2000	16,407,721	15,780,205	15,613,269	11,207,876	1,151,696	22,620,124	12,682,868
2001	19,330,994	18,408,235	17,512,242	12,380,543	1,328,765	25,469,983	13,809,899
2002	26,543,771	25,057,050	23,451,151	16,536,258	1,324,031	30,218,607	15,026,294

CHARTER AND BYLAWS

The Company's original charter of incorporation was filed and recorded with the Tennessee Secretary of State on June 9, 1986. The charter was filed and recorded in the Register Office of Maury County at Columbia, Tennessee on June 23, 1986. Effective July 7, 1987, the charter was amended and restated.

The restated charter established the Company as a for-profit corporation organized for the following purposes:

(a) to make all types and forms of property, vehicle, casualty and surety insurance as defined by Tenn. Code Ann., Section 56-2-201.

(b) to enter into reinsurance contracts with respect to the types of insurance set forth in (a) above.

(c) to provide any and all kinds of insurance services.

In addition to the above, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute.

The bylaws are such as those generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, directors and shareholders.

MANAGEMENT AND CONTROL

Ownership and control of the Company rests in James H. and Nancy W. Walker who together own 41.49% of the outstanding shares of the Company's common stock. The controlling parties do not own any other business. Therefore, the Company does not appear to be a member of a holding company as defined in Tenn. Code Ann. § 56-11-201 (b)(6).

The annual meeting of the shareholders is held during the month of April of each year. At all meetings, the shareholders of record shall be entitled to one (1) vote for each share of stock standing in their name and may vote either in person or by proxy. At all meetings of shareholders, a majority of the outstanding shares of stock entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business. The vote or authorization of a majority of the shares represented, at any meeting at which a quorum is present or represented, shall determine the action taken on any matter that may come before the meeting, unless otherwise specifically required by law or by express provision of the charter or bylaws of the Company. Special meetings of the shareholders may be called at any time by the Company's President, the Board of Directors or the holder or holders of not less than one tenth (1/10) of all the shares entitled to vote at such meeting.

The business and affairs of the Company are managed and controlled by a Board of Directors. The Board of Directors shall be five (5) in number; provided that if all the shares of the Company are owned by less than five (5) shareholders, the number of directors may be less than five (5) but not less than the number of shareholders of record. Directors need not be shareholders of the Company. Directors are elected at the annual meetings of shareholders; but if any such annual meeting is not held or if the directors are not elected at such annual meeting, the directors may be elected at any special meeting of the shareholders. Directors shall be elected by a plurality of the votes cast and they shall hold office until the next annual meeting of the shareholders or until their respective successors have been elected and qualified.

Regular meetings of the directors shall be held annually following the annual meeting of the shareholders. Special meetings of the directors may be called at any time by the Company's President or by any two (2) directors on at least two (2) days' notice sent by any usual means of communication. A majority of the total number of directors then in office shall constitute a quorum for the transaction of business. The vote or action of a majority of the directors present at any meeting at which a quorum is had, shall decide any matter that may come before the meeting and shall be the act of the Board unless otherwise specifically required by law or by the express provision of the Company's charter or bylaws. Any action required or permitted to be taken by the directors of the Company may be taken without a meeting on written consent, setting forth the action so taken, signed by all directors entitled to vote thereon. A majority of the entire Board of Directors may by resolution appoint an executive committee or any other committee or committees for any purpose or purposes to the extent permitted by law, which committee or committees shall have such powers as shall be specified in the resolution of appointment.

The following persons were serving as directors at December 31, 2002:

Name	Address	Occupation
Terry S. Duncan	Columbia, TN	President, Haulers Insurance Co., Inc.
Leroy Gibson	Columbia, TN	Retired
J. Cliff Walker	Columbia, TN	Secretary/Treasurer & General Counsel, Haulers Insurance Co., Inc.
*James H. Walker	Columbia, TN	Retired
Nancy W. Walker	Columbia, TN	Retired

*Chairman

The officers of the Company are elected or appointed at the regular meeting of the Board of Directors, provided that any vacancy or newly created office may be filled at a special meeting of the Board. The officers shall hold office until the next regular meeting of the Board and thereafter until their successor has been elected or appointed and qualified. The bylaws provide that the officers of the Company shall be a Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Secretary, and a Treasurer. Any two or more offices may be held by the same person except the offices of President and Secretary.

The Chairman shall call to order all meetings of the shareholders and all meetings of the Board of Directors, and shall preside over each of these meetings.

The President shall be the chief executive officer of the Company and shall have general supervision of the business and property of the Company and exercise all the powers and duties customarily exercised by the chief executive officer of business corporations. In the absence or incapacity of the Chairman of the Board of Directors, the President shall call and preside at all meetings of the shareholders and the Board of Directors. Subject to the approval of the Board of Directors, the President may appoint agents and employees of the Company, other than the officers elected or appointed by the

Board and shall perform such other duties as may from time to time be prescribed by the Board of Directors.

The Vice-President or Vice-Presidents shall assist the President in the management of the Company and shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors.

The Secretary shall keep the minutes of all meetings of the shareholders and the Board of Directors in appropriate books, attend to the giving of all notices for the Company and have charge of the seal and stock books of the Company and such other books and papers as the Board may direct. In general, the Secretary shall perform all duties incident to the office of Secretary and shall perform such other duties as may from time to time be prescribed by the Board of Directors.

The Treasurer shall have the care and custody of all funds and securities of the Company and shall perform all the duties incident to the office of the Treasurer and such other duties as from may from time to time be prescribed by the Board of Directors.

The following were serving as officers of the Company at December 31, 2002:

Name	Office Held
James H. Walker	Chairman
Terry S. Duncan	President
J. Cliff Walker	Secretary/Treasurer

As of December 31, 2002, the Company retained the following professional services:

Actuarial Services: Casualty Actuarial Consultants, Inc.
7101 Executive Center Dr., Suite 225
Brentwood, Tennessee 37027

Auditing Services:	Cooper, Travis & Company, PLC 3008 Poston Avenue Nashville, Tennessee 37203
Legal Services:	Hardin & Parkes, PLLC 102 West Seventh Street, Suite 100 P.O. Box 929 Columbia, Tennessee 38402

A corporate organizational chart is attached to this report as Exhibit A.

CORPORATE RECORDS

During the period under examination, there were five (5) annual meetings of the Company's shareholders and one (1) action taken by written consent. There were five (5) annual meetings of the Board of Directors and thirty (30) actions taken by written consent. The minutes of the meetings of the shareholders and the Board of Directors, held during the period under examination, were reviewed and found to be well written, complete as to necessary detail and adequately approve and support the transactions and events of the Company.

FIDELITY BOND AND OTHER INSURANCE

The following is a schedule of insurance maintained by the Company at December 31, 2002:

Type of Coverage	Amount	
Financial Institution Bond	$ 250,000	Fidelity
	250,000	Forgery and Alteration
	250,000	Computer Systems Fraud

Workers' Compensation and Employers' Liability	1,000,000	Each Accident
	1,000,000	Disease-Each Employee
	1,000,000	Disease-Policy Limit
Electronic Equipment	220,000	Equipment Owned
	80,000	Media/Data (Software)
	25,000	Equipment In Transit
	10,000	Extra Expense
General Liability	1,000,000	Bodily Injury and Property Damage
	2,000,000	General Aggregate
	2,000,000	Products and Completed Operations
	1,000,000	Personal and Advertising Injury
	300,000	Damage to Rented Premises
	10,000	Medical Expense – Any One Person
	1,000,000	Employee Benefits Liability
	1,000,000	Employment Practices Liability
	100,000	Valuable Papers and Records
Commercial Umbrella	$10,000,000	Each Occurrence
	10,000,000	Annual Aggregate
	10,000	Retained Limit
Commercial Property	$ 500,000	Business Personal Property
	500,000	Building
	15,000	Accounts Receivable
	100,000	Valuable Papers
	25,000	Money and Securities
	10,000	Property in Transit
Business Automobile	1,000,000	Bodily Injury and Property Damage
	5,000	Auto Medical Payments-Each Person
	1,000,000	Uninsured Motorists
	1,000,000	Underinsured Motorists

Errors and Omissions	1,000,000	Each Act
	1,000,000	Aggregate

The above coverages were issued by companies licensed to transact business in the State of Tennessee. As of December 31, 2002, the Company's fidelity coverage was less than the suggested minimum as shown in the NAIC Financial Condition Examiners Handbook. Prior to the completion of the examination, the Company increased its coverage to $350,000, which is greater than the suggested minimum.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company provides life and medical insurance but has no retirement plan for its employees. Additionally, the Company provides its senior management with a bonus plan. The bonus plan was approved by the Board of Directors effective as of January 1, 1996.

TERRITORY

As of December 31, 2002, the Company was licensed to transact business in the States of Alabama, Mississippi, Missouri, North Carolina, Tennessee and Virginia. The certificates of authority for the various jurisdictions were inspected and found to be in full force and effect. Premium and loss amounts for 2002 were as follows:

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid	Finance & Service Charges
Alabama	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Mississippi	0	0	0	0	0	0
Missouri	3,391,032	2,914,881	1,382,077	1,677,483	989,667	103,519
North Carolina	0	0	0	0	0	0
Tennessee	18,346,820	17,199,329	8,916,510	10,632,428	5,070,786	702,674
Virginia	4,805,919	4,827,810	2,980,437	3,024,321	955,813	207,735
Total	$26,543,771	$24,942,020	$13,279,02	$15,334,232	$7,016,266	$1,013,928

PLAN OF OPERATION

The Company specializes in underwriting automobile insurance policies for both the personal and commercial sectors. In addition, commercial fire and mobile home coverages are also written. All policies are directly billed to the insured and are sold and serviced through independent agencies, all of which have written agreements with the Company. These agencies are located primarily in rural areas.

All personal automobile policies are six (6) month policies. All commercial and mobile home policies are written on a twelve (12) month basis. The Company offers monthly, quarterly and semi-annual payment plans. Each of these plans includes an installment fee. In addition, the insured can pay in full with no installment fee assessed.

During the period under review and through the date of this report, all policy preparation was performed in the Company's home office and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. The adjustment of claims is handled primarily by in-office adjusters. Independent adjusters are used only for automobile appraisals and accident scene investigations.

MARKET CONDUCT ACTIVITIES

A market conduct review of the Company was made concurrently with the financial condition examination. The following areas were covered by this review:

Advertising:

The Company does not actively advertise.

Underwriting:

All underwriting is performed at the Company's home office. The Company maintains written risk selection guidelines and underwriting requirements and all agents are provided a copy.

Rates and Policy Forms:

The Company utilizes ISO rates, rules and forms for commercial property lines. All other lines utilize ISO forms but rates and rules are independently filed. Such filings appear to have been properly approved.

Complaints:

A review of complaints made to regulatory authorities regarding the Company indicated a conscientious effort by the Company to equitably fulfill its obligations and to resolve policyholder complaints in a timely manner.

Claims:

A sample of open and closed claims reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were promptly made upon receipt of proper evidence of the Company's liability.

Privacy Policy:

The Company has a written privacy statement. It is supplied to its policyholders the first time business is transacted and annually thereafter in compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0890-1-72.

LOSS EXPERIENCE

The loss experience of the Company, since its inception, as reported in its annual statements filed with the Department of Commerce and Insurance, is as follows:

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
1986	81,931	17,390	224,054	44.3%
1987	233,987	75,905	710,828	43.6%
1988	3,234,649	268,704	4,290,371	81.7%
1989	5,684,215	418,274	8,272,765	73.8%
1990	6,781,625	634,329	8,994,229	82.5%
1991	6,325,207	703,990	9,284,219	75.7%
1992	6,173,600	788,218	10,498,789	66.3%
1993	7,331,027	856,906	12,071,600	67.8%
1994	8,087,007	1,070,648	12,856,977	71.2%
1995	10,615,316	1,264,040	14,564,202	81.6%
1996	8,151,542	1,504,220	12,818,921	75.3%
1997	8,264,775	1,616,344	13,413,487	73.7%
1998	9,628,092	1,471,913	14,312,415	77.6%
1999	8,538,066	1,547,585	14,442,480	69.8%
2000	9,681,333	1,526,543	15,613,269	71.8%
2001	10,686,977	1,693,566	17,512,242	70.7%
2002	14,424,625	2,111,633	23,451,151	70.5%

REINSURANCE

All of the Company's reinsurance agreements were reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, offset, settlement, taxes and termination. All of the reinsuring companies are authorized to do business in Tennessee. The following is a summary of the reinsurance agreements in effect as of December 31, 2002:

(1)

Type:	Multiple Line Excess of Loss
Reinsurer:	General Reinsurance Corporation
Term:	Continuous contract, effective August 1, 1998
Premium:	First Excess Coverage: 5% of the net earned premium of the Company

Second Excess Coverage: 0.279% of the net earned premium of the Company

Contingent Commission: 25% of the net profits accruing to the reinsurer

Coverage: (a) As respects property business:

Under the first excess cover, the reinsurer shall be liable to the Company for the amount of net loss sustained by the Company in excess of the Company's retention of $100,000 each risk, but not exceeding a limit of liability of the reinsurer of $400,000 each risk, subject to a maximum of $1,200,000 on any one (1) loss occurrence.

(b) As respects casualty business:

Under the first excess cover, the reinsurer shall be liable to the Company for the amount of net loss sustained by the Company in excess of the Company's retention of $100,000 each occurrence, but not exceeding a limit of liability of the reinsurer of $900,000 each occurrence. Under the second excess cover, the reinsurer shall be liable to the Company for the amount of net loss sustained by the Company, but not exceeding a limit of liability of the reinsurer of $1,000,000 each occurrence, with the liability of the Reinsurer under the Second Excess Cover not exceeding $3,000,000 with respect to all Extra Contractual Obligation arising from losses occurring during each Agreement Year.

(2)

Type: Property Catastrophe Excess of Loss

Reinsurer: QBE Reinsurance Corporation, ALEA North America Insurance Company, Lloyd's of London Syndicate No. 2010

Term: Effective August 1, 2002 through July 31, 2003

Premium: 5.25% net written premium income of the business covered under this agreement.

Coverage: The reinsurer shall be liable to the Company when two or more risks are involved in any one (1) loss occurrence in excess of $250,000 each and every loss occurrence, but not exceeding a limit of liability of the reinsurer of $2,750,000 each loss occurrence. The Company shall retain 2.5% of each excess loss.

COMMISSION EQUITY

The reinsurance agreements which the Company had in place as of December 31, 2002 do not contain provisions for a ceding commission to the Company. Therefore, no commission equity exists in the ceded unearned premium.

PECUNIARY INTEREST TENN. CODE ANN. §56-3-103

During the period under examination, the Company had an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of its officers and directors which conflicts with the person's official duties with the Company. Statements regarding such conflicts of interest were executed by the officers, directors and key personnel on an annual basis.

The only conflict reported was that the Company leases its office facilities from Santa Fe Pike Partners. This partnership of individuals includes some officers and/or shareholders of the Company. The building has been the Company's home office since its incorporation and was originally shared with General Trucking Company. The building was sold to Santa Fe Pike Partners by General Trucking Company on July 30, 1993, for a purchase price of $300,000.

Under the most recent lease agreement, dated August 1, 1998, the Company agreed to lease its facilities for a period of five (5) years payable at $3,500 per month adjustable annually. The Company also leased the building from August 1, 1993 to July 31, 1998 under an identical lease agreement with the same monthly lease payment. This lease arrangement appears to be in violation of Tenn. Code Ann. §56-3-103 which states in part that no director or other officer of any domestic insurance company shall accept any fee or other consideration made by such company. Subsequent to the as of date of this examination, on July 2, 2003, the Company purchased its office building from Santa Fe Pike Partners for a purchase price of $300,000.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2002:

Where Deposited and Description	Par Value	Statement Value	Market Value
North Carolina, Special Deposit			
USTB, 7.25%, Due 5/15/16	$ 100,000	$ 101,357	$ 128,063
Tennessee, General Deposit			
Illinois St. FGIC, 5.0%, Due 11/1/20	200,000	199,032	207,950
Jackson, TN 5.90%, Due 9/1/20	200,000	211,536	221,046
King County, WA, 5.0%, Due 12/1/19	200,000	200,908	208,614
Miss. St. Cap. Impt., 5.0%, Due 11/1/19	200,000	200,000	208,946
Rhea Co., TN, G.O., 5.0%, Due 4/1/20	200,000	200,000	207,792
Utah St. Lease Rev., 5.0%, Due 5/15/19	200,000	199,517	208,876
Virginia, Special Deposit			
USTB, 7.50%, Due 2/15/05	200,000	200,501	224,250
Totals	$ 1,500,000	$ 1,512,851	$ 1,615,537

These deposits were verified by written confirmations. With the exception of the special deposit held by the State of North Carolina, the statutory deposits are admitted assets in accordance with Tenn. Code Ann. §56-1-405. The North Carolina deposit was correctly reported as non-admitted by the Company in its Annual Statement.

LITIGATION

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business. During the years under examination, no regulatory action was taken against the Company. The Company has no agreements, commitments, obligations or pending matters of a contingent nature which would adversely affect its financial condition.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is 1101 Santa Fe Pike, Columbia, Tennessee. All accounting functions are performed by Company personnel. Accounting records and supporting data are compiled in accordance with established insurance accounting practices and generally accepted accounting principles. All of the Company's accounts and records are maintained on an electronic data processing system.

During the course of the examination, accounts were verified and records reviewed using various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's annual statements. Test checks for selected periods were made of premium receipts, investment income, including interest due and accrued, and disbursements, including claim payments, to the extent deemed necessary. Additionally, premium tax returns and federal income tax returns were examined.

The Company contracts with the public accounting firm Cooper, Travis & Company, Nashville, Tennessee, to audit and express an opinion on its statutory financial statement. The Company is in compliance with the NAIC's Risk-Based Capital requirements.

The Company's system of accounts and records is consistent with the customary standards for companies of this type. Such system is adequate for the Company's needs and it provides a reasonably accurate portrayal of the Company's financial condition.

LOSS RESERVES

A review of the Company's loss reserves was conducted by Mary Frances Miller, FCAS, MAAA, of Select Actuarial Services. This review concluded that the Company's calculated reserve for net unpaid losses and loss adjustment expenses of $7,091,806 is a reasonable estimate of the net unpaid losses and adjustment expenses of the Company as of December 31, 2002. The review also notes that the relatively narrow range of reasonable estimates, the Company's low per occurrence retention ($100,000 per loss or less), the lack of exposure to long-tail coverages, and the strong surplus position contribute to the conclusion that there is not a significant risk of material adverse deviation in the results.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and a statement of income as of December 31, 2002, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

ASSETS

	Ledger Assets	Assets not Admitted	Net Admitted Assets
Bonds	$19,457,913	$101,356	$19,356,557
Common stocks	669,137		669,137
Mortgage loans	116,712		116,712
Cash & short term investments	4,343,604		4,343,604
Total cash & invested assets	24,587,366	101,356	24,486,010
Premiums & agents' balances in course of collection	1,204,462		1,204,462
Premiums, agents' balances & installments booked but deferred and not yet due	3,359,974		3,359,974
Reinsurance recoverables on loss and LAE payments	40,856		40,856
FIT recoverable	688,016		688,016
EDP equipment	20,326		20,326
Interest, dividends and real estate income due & accrued	308,240		308,240
Other Assets Nonadmitted	1,359,011	1,359,011	0
Aggregate Write-Ins for Other than Invested Assets	110,723		110,723
Totals	$31,678,974	$1,460,367	$30,218,607

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 6,067,184
Loss adjustment expenses	1,024,622
Contingent commissions and other similar charges	197,969
Other expenses	90,131
Taxes, licenses and fees	42,032
Unearned premiums	7,656,082
Ceded reinsurance premiums payable	114,293
Total liabilities	15,192,313
Common capital stock	2,171,090
Gross paid in and contributed surplus	770,171
Unassigned funds	12,085,033
Surplus as regards policyholders	15,026,294
Totals	$30,218,607

UNDERWRITING AND INVESTMENT EXHIBIT

STATEMENT OF INCOME

Underwriting Income	
Premiums earned	$23,451,151
Deductions:	
Losses incurred	14,424,625
Loss expenses incurred	2,111,633
Other underwriting expenses incurred	7,007,725
Total underwriting deductions	23,543,983
Net underwriting gain or (loss)	(92,832)
Investment Income	
Net investment income earned	982,495
Net realized capital gains or (losses)	(23,528)
Net investment gain or (loss)	958,962
Other Income	
Finance and service charges not included in premiums	1,013,928
Aggregate write-ins for miscellaneous income	8,600
Total other income	1,022,528
Net income before federal income taxes	1,888,658
Federal and foreign income taxes incurred	564,627
Net Income	$ 1,324,031

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 1997	$10,111,691
Net income	701,690
Net unrealized capital gains or (losses)	46,868
Change in non-admitted assets	(378,511)
Capital changes:	
Paid-in	(24,000)
Surplus adjustments:	
Paid-in	(105,284)
Change in surplus as regards policyholders for the year	240,763
Surplus as regards policyholders, December 31, 1998	$10,352,454
Net income	1,409,687
Net unrealized capital gains or (losses)	18,986
Change in non-admitted assets	(128,378)
Capital changes:	
Paid-in	(2,200)
Surplus adjustments:	
Paid-in	(9,843)
Change in surplus as regards policyholders for the year	1,288,252
Surplus as regards policyholders, December 31, 1999	$10,640,706
Net income	1,151,696
Net unrealized capital gains or (losses)	70,309
Change in non-admitted assets	48,101
Capital changes:	
Paid-in	(35,590)
Surplus adjustments:	
Paid-in	(192,354)
Change in surplus as regards policyholders for the year	1,042,162
Surplus as regards policyholders, December 31, 2000	$ 12,682,868
Net income	1,328,765

Net unrealized capital gains or (losses)	(120,599)
Change in net deferred income tax	541,485
Change in non-admitted assets	(505,482)
Capital changes:	
Paid-in	(16,910)
Surplus adjustments:	
Paid-in	(100,228)
Change in surplus as regards policyholders for the year	1,127,031
Surplus as regards policyholders, December 31, 2001	$ 13,809,899
Net income	1,324,031
Net unrealized capital gains or (losses)	(48,720)
Change in net deferred income tax	58,515
Change in non-admitted assets	(188,955)
Capital changes:	
Paid-in	9,100
Surplus adjustments:	
Paid-in	62,367
Aggregate write-ins for gains and losses in surplus	57
Change in surplus as regards policyholders for the year	1,216,395
Surplus as regards policyholders, December 31, 2002	$ 15,026,294

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the Fidelity Bond and Other Insurance Coverages section of this report, the Company's fidelity bond coverage, as of December 31, 2002, was less than the NAIC suggested minimum of $350,000. Prior to the completion of the examination, the Company increased its coverage to $350,000.

2. The Company's Custodian Agreement did not contain all the necessary safeguards and controls prescribed by the NAIC Examiners handbook and Tennessee Regulation 0780-1-46-.04. The agreement was replaced during the course of the examination with a new Agreement which does contain all the necessary safeguards and controls.

Recommendations

1. As noted in the Pecuniary Interest section of this report, the ownership of the Company's home office building and lease of such building to the Company by a partnership which included individuals who are officers of the Company appears to violate Tenn. Code Ann. §56-3-103. Although this conflict of interest was eliminated by the sale of the building to the Company at its original purchase price, it is recommended that the Company and its officers take steps to prevent any future violations of this statute.

CONCLUSION

The customary insurance examination practices and procedures, as established by the National Association of Insurance Commissioners, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such matter, it was concluded that as of December 31, 2002, the Company had net admitted assets of $30,218,607 and liabilities, exclusive of capital, of $15,192,313. Therefore, there existed for the additional protection of policyholders, the amount of $15,026,294 in the form of capital, gross paid in and contributed surplus and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

Respectfully submitted,

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee

Stephanie D. Brooks

Stephanie D. Brooks
Insurance Examiner
State of Tennessee

Amy J. Maggard

Amy J. Maggard
Insurance Examiner
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report on Haulers Insurance Company, Inc., dated May 17, 2004, and made as of December 31, 2002, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda L. Bowling-Black

Rhonda L. Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me this

17th day of May, 2004

Helen N. Dabney

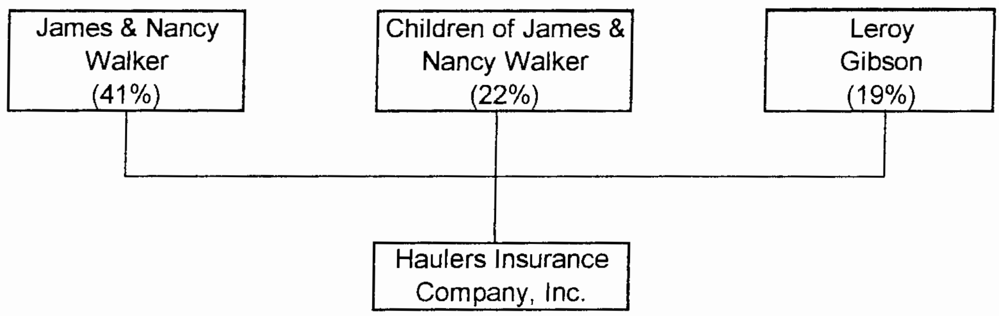
Notary

County Davidson

State Tennessee

Commission Expires 03/25/06

CORPORATE ORGANIZATIONAL CHART



No other individual controls more than 10% of the outstanding stock.